

ORIGINAL

OPEN MEETING

MEMORANDUM



0000139559

TO: THE COMMISSION

Arizona Corporation Commission **AZ CORP COM**

DOCKETED

DOCKET CONTROL

FROM: Utilities Division

SEP 18 2012 2012 SEP 18 PM 3 44

DATE: September 18, 2012

DOCKETED BY

JM

RE: TUCSON ELECTRIC POWER COMPANY - APPLICATION FOR
APPROVAL OF A CUSTOMER AGREEMENT WITH PIMA COUNTY.
(DOCKET NO. E-01933A-12-0308)

On July 6, 2012, Tucson Electric Power Company ("TEP") filed an application for approval of an agreement between TEP and Pima County ("Pima") that would allow Pima to acquire a large number of blocks of solar energy from TEP under the Bright Tucson Community Solar Program at a lower premium than is provided for in TEP's Pricing Plan Rider 5. In the application, TEP waived the 30-day time limit for the Commission to act on the agreement.

Background

The Bright Tucson Community Solar Program ("Program") was approved by the Commission under Decision No. 71835, on August 10, 2010. The Program is designed to provide customers with access to solar distributed energy without requiring the customer to invest in a self-owned system, thereby avoiding large upfront costs and requiring a long-term commitment. In addition, the Program provides customers with a hedge against future energy price increases and a means to promote solar energy at a nominal price.

Under the Program, one or more solar photovoltaic ("PV") power plants are either TEP-constructed and owned, or a private developer owns and operates the plant under a Power Purchase Agreement with TEP. A customer may participate in the Program by purchasing one or more blocks ("Solar Blocks") of solar capacity from these solar PV power plants. Each block of solar capacity is equal to one kilowatt and represents 150 kWh (per month) of electric energy. Participating customers pay a Solar Energy Premium of \$0.02 per kWh over the regular tariff rate and this solar component of their bill is fixed at this rate for 20 years. All contracted Solar Block kWhs and associated charges in a billing month are excluded from the calculation of Purchased Power and Fuel Adjustor Clause ("PPFAC") and Renewable Energy Standard and Tariff ("REST") charges and/or credits.

TEP reports that as of July 1, 2012, 777 customers have purchased a total of 4,133 solar blocks under the Program, representing 4,133 kW of capacity and 619,950 kWh per month of energy.

Each year, for the bills produced in October (September usage), TEP would credit any excess kWhs after netting and reset the balance to zero. Credit for excess kWhs will be at the energy rate of the Solar Blocks. All contracted Solar Block kWhs and associated charges in a billing month will be excluded from the calculation of PPFAC and REST charges and/or credits.

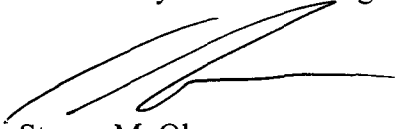
The Agreement contains provisions for termination for cause based on specific material default situations defined in the Agreement. The Termination for Cause paragraph states that if either party materially defaults in its performance under the Agreement and fails to cure such default for 30 days, the non-defaulting party may immediately terminate the Agreement. If TEP terminates the Agreement for Cause, such termination will not affect the land lease or require removal of the solar generation facility on the leased property. Upon termination of this Agreement by TEP for Cause, the lease rate specified in the land lease will convert to a fixed rate of \$67,500 annually for the remainder of the lease term.

If Pima terminates the Agreement for Cause, Pima may terminate the land lease pursuant to terms of the land lease agreement.

Staff Analysis and Recommendations

Staff has reviewed the Agreement and finds that it is consistent with the terms of TEP's Pricing Plan Rider-5 (except the proposed change to the Solar Energy Premium). Staff believes that an 82.8 percent reduction in the Solar Energy Premium is reasonable in light of the magnitude of Pima's intended Solar Block purchases, and because the agreement will enable Pima to capture the lease value of their fallow land asset and trade it for solar power. Staff further believes that the other terms and conditions of the Agreement are reasonable. Staff further believes that large Solar Block purchases will enhance and promote the continued success of community solar programs in general and the Program specifically. Finally, for the purposes of evaluating this special contract, any impact to TEP's fair value rate of return would likely be de minimus.

Based on the above analysis, Staff recommends approval of the Bright Tucson Community Solar Rider Agreement Between Tucson Electric Power Company and Pima County.



Steven M. Olea
Director
Utilities Division

SMO:RBL:sms/CHH

ORIGINATOR: Rick Lloyd

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 GARY PIERCE

Chairman

3 BOB STUMP

Commissioner

4 SANDRA D. KENNEDY

Commissioner

5 PAUL NEWMAN

Commissioner

6 BRENDA BURNS

Commissioner

7
8 IN THE MATTER OF THE APPLICATION
9 OF TUCSON ELECTRIC POWER
10 COMPANY FOR APPROVAL OF A
11 CUSTOMER AGREEMENT WITH PIMA
12 COUNTY

DOCKET NO. E-01933A-12-0308

DECISION NO. _____

ORDER

13
14 Open Meeting
15 October 16 and 17, 2012
16 Phoenix, Arizona

17 BY THE COMMISSION:

18 FINDINGS OF FACT

19 1. Tucson Electric Power Company ("TEP") is certificated to provide electric service
20 as a public service corporation in the State of Arizona.

21 2. On July 6, 2012, TEP filed an application for approval of an agreement between
22 TEP and Pima County ("Pima") that would allow Pima to acquire a large number of blocks of
23 solar energy from TEP under the Bright Tucson Community Solar Program at a lower premium
24 than is provided for in TEP's Pricing Plan Rider 5. In the application, TEP waived the 30-day time
25 limit for the Commission to act on the agreement.

26 Background

27 3. The Bright Tucson Community Solar Program ("Program") was approved by the
28 Commission under Decision No. 71835, on August 10, 2010. The Program is designed to provide
customers with access to solar distributed energy without requiring the customer to invest in a self-

1 owned system, thereby avoiding large upfront costs and requiring a long-term commitment. In
2 addition, the Program provides customers with a hedge against future energy price increases and a
3 means to promote solar energy at a nominal price.

4 4. Under the Program, one or more solar photovoltaic ("PV") power plants are either
5 TEP-constructed and owned, or a private developer owns and operates the plant under a Power
6 Purchase Agreement with TEP. A customer may participate in the Program by purchasing one or
7 more blocks ("Solar Blocks") of solar capacity from these solar PV power plants. Each block of
8 solar capacity is equal to one kilowatt and represents 150 kWh (per month) of electric energy.
9 Participating customers pay a Solar Energy Premium of \$0.02 per kWh over the regular tariff rate
10 and this solar component of their bill is fixed at this rate for 20 years. All contracted Solar Block
11 kWhs and associated charges in a billing month are excluded from the calculation of Purchased
12 Power and Fuel Adjustor Clause ("PPFAC") and Renewable Energy Standard and Tariff ("REST")
13 charges and/or credits.

14 5. TEP reports that as of July 1, 2012, 777 customers have purchased a total of 4,133
15 solar blocks under the Program, representing 4,133 kW of capacity and 619,950 kWh per month of
16 energy.

17 The Proposed Agreement

18 6. TEP states that it has been approached by Pima with a proposal whereby Pima
19 would agree to acquire a large number of Solar Blocks if TEP would agree to a smaller premium
20 for the solar energy. TEP would agree to lease land owned by Pima upon which a new solar PV
21 generation facility would be constructed for an additional decrease in the contract rate.
22 Accordingly, TEP and Pima have signed an agreement entitled "Bright Tucson Community Solar
23 Rider Agreement Between Tucson Electric Power Company and Pima County" ("Agreement").

24 7. TEP will own and operate the new 5 MW solar PV power plant. The plant, known
25 as the "Prairie Fire" project, will be located on a 48-acre tract of vacant land located at 7540 South
26 Old Vail Road in Tucson. Interconnection of the new plant with TEP's existing distribution system
27 will occur near the northeast corner of the site. Funding for this plant is included in TEP's 2013
28

REST Implementation Plan (Docket No. E-01933A-12-0296) as part of the Bright Tucson Community Solar Build-out Plan.

8. Under terms of the Agreement, Pima would purchase five megawatts of generating capacity from the Program. Pima would pay a Solar Energy Premium of \$0.01250 per kWh. The credit for use of Pima's land for the use of the new solar generating facility would further reduce Pima's rate by \$0.0075 per kWh. The base power contract rate would be at the Municipal Service PS-40 standard tariff rate. The Solar Block Energy Rate would be \$0.034085 per kWh, a 17.19 percent premium over Pima's base power contract rate, as depicted in Table I below.

Table I

Special Contract Rate

Rate Schedule	Base Power Contract Rate	Solar Energy Premium	Land Use Credit	Solar Block Energy Rate
Municipal Service PS-40	\$0.029086/kWh	\$0.012500/kWh	- \$0.0075/kWh	\$0.034086/kWh

9. The Agreement has a term of 20 years commencing on the date of an Order by the Commission approving the Agreement, or the date of execution of the land lease, or the date of solar system commissioning, whichever is later ("Effective Date").

10. Solar Blocks purchased by Pima would be applied to the actual energy usage each month. Electricity used in excess of the purchased Solar Blocks will be billed at the applicable standard offer energy rate. If electricity usage is below the amount covered by the Solar Blocks, then the excess kWhs will be rolled forward and credited against Pima's usage in the following month(s). Pima would still be responsible for the full monthly cost of the contracted Solar Blocks.

11. Each year, for the bills produced in October (September usage), TEP would credit any excess kWhs after netting and reset the balance to zero. Credit for excess kWhs will be at the energy rate of the Solar Blocks. All contracted Solar Block kWhs and associated charges in a billing month will be excluded from the calculation of PPFAC and REST charges and/or credits.

12. The Agreement contains provisions for termination for cause based on specific material default situations defined in the Agreement. The Termination for Cause paragraph states that if either party materially defaults in its performance under the Agreement and fails to cure such default for 30 days, the non-defaulting party may immediately terminate the Agreement. If TEP terminates the Agreement for Cause, such termination will not affect the land lease or require removal of the solar generation facility on the leased property. Upon termination of this Agreement by TEP for Cause, the lease rate specified in the land lease will convert to a fixed rate of \$67,500 annually for the remainder of the lease term.

13. If Pima terminates the Agreement for Cause, Pima may terminate the land lease pursuant to terms of the land lease agreement

Staff Analysis and Recommendations

14. Staff has reviewed the Agreement and finds that it is consistent with the terms of TEP's Pricing Plan Rider-5 (except the proposed change to the Solar Energy Premium). Staff believes that an 82.8 percent reduction in the Solar Energy Premium is reasonable in light of the magnitude of Pima's intended Solar Block purchases, and because the agreement will enable Pima to capture the lease value of their fallow land asset and trade it for solar power. Staff further believes that the other terms and conditions of the Agreement are reasonable. Staff further believes that large Solar Block purchases will enhance and promote the continued success of community solar programs in general and the Program specifically. Finally, for the purposes of evaluating this special contract, any impact to TEP's fair value rate of return would likely be de minimus.

15. Based on the above analysis, Staff has recommended approval of the Bright Tucson Community Solar Rider Agreement Between Tucson Electric Power Company and Pima County.

CONCLUSIONS OF LAW

1. TEP is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

2. The Commission has jurisdiction over TEP and over the subject matter of the application.

3. The Commission, having reviewed the application and Staff's Memorandum dated September 18, 2012, concludes that the Agreement between TEP and Pima should be approved as discussed herein.

ORDER

IT IS THEREFORE ORDERED that the Bright Tucson Community Solar Rider Agreement between Tucson Electric Power Company and Pima County is hereby approved, as discussed herein.

IT IS FURTHER ORDERED THAT THIS Decision shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2012.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

SMO:RBL:sms/CHH

1 SERVICE LIST FOR: Tucson Electric Power Company
2 DOCKET NO. E-01933A-12-0308

3 Mr. Michael Patten
4 Roshka DeWulf & Patten, PLC
5 One Arizona Center
6 400 East Van Buren Street - 800
7 Phoenix, Arizona 85004

8 Mr. Bradley S. Carroll, Esq.
9 Tucson Electric Power Company
10 One South Church Avenue, Suite 200
11 Tucson, Arizona 85701

12 Mr. Steven M. Olea
13 Director, Utilities Division
14 Arizona Corporation Commission
15 1200 West Washington Street
16 Phoenix, Arizona 85007

17 Ms. Janice M. Alward
18 Chief Counsel, Legal Division
19 Arizona Corporation Commission
20 1200 West Washington Street
21 Phoenix, Arizona 85007

22 Lyn Farmer
23 Chief Administrative Law Judge
24 Hearing Division
25 Arizona Corporation Commission
26 1200 West Washington Street
27 Phoenix, Arizona 85007
28